

## Budget 2008 – what it means to you

Chancellor of the Exchequer Alistair Darling delivered his first Budget yesterday (Wednesday), March 12, 2008. Below we outline the key measures impacting on the fleet and motor industry.

### Company car tax

Company car tax thresholds will tighten by a further 5 g/km with effect from April 6, 2010. That will see the 15% company car tax band lowered from 135 g/km to 130 g/km.

Ironically, company car tax bills for basic rate taxpayers will fall in 2008/9 despite a 5 g/km tightening of carbon dioxide emission thresholds.

The Chancellor confirmed an earlier Budget announcement that the basic tax rate would drop from 22% to 20% from April 6 this year. However, company car tax levels for higher rate taxpayers will rise in 2008/9 as the 40% tax rate will remain unchanged.

The cut in the basic rate of tax is therefore sufficient to wipe out the impact of the reduction in CO<sub>2</sub> thresholds, which would normally result in higher company car tax bills for all. Indeed, employees who choose a sub 120 g/km car will win twice over - through the income tax rate cut and the April 6 introduction of an already announced 10% company car tax rate on cars emitting 120 g/km or below (13% for diesel cars).

It means, for example, that the basic rate taxpayer at the wheel of a Ford Fiesta 1.6 Style 5dr (PI Id value: £14,105) that emits 159 g/km of CO<sub>2</sub> (18%) pays £558.55 company car tax in 2007/8. However, in 2008/9 the bill drops to £535.99 despite the vehicle moving into the 19% company car tax bracket - a saving of £2 a month.

Similarly, the basic rate taxpayer at the wheel of a Vauxhall Vectra 1.8i Design 5dr (PI Id value: £17,935) that emits 173 g/km of CO<sub>2</sub> (21%) pays £828.60 company car tax in 2007/8. However, in 2008/9 the bill drops to £789.14 despite the vehicle moving into the 22% company car tax bracket - a saving of £3 a month.

### Comment

Not surprisingly the Chancellor has built on established principles and will further tighten company car tax from April 6, 2010 building on reductions being introduced on April 6. The 2008/9 introduction of a new low 10% company car tax rate for sub 120 g/km cars (13% for diesels) coupled with the introduction of a 20% basic rate of tax means that employees who choose the cleanest vehicles will make a double saving if they pay basic rate tax.



G/km of CO <sub>2</sub>				% of list price
2007/08	2008/09	2009/10	2010/11	
-	120	120	120	10
140	135	135	130	15
145	140	140	135	16
150	145	145	140	17
155	150	150	145	18
160	155	155	150	19
165	160	160	155	20
170	165	165	160	21
175	170	170	165	22
180	175	175	170	23
185	180	180	175	24
190	185	185	180	25
195	190	190	185	26
200	195	195	190	27
205	200	200	195	28
210	205	205	200	29
215	210	210	205	30
220	215	215	210	31
225	220	220	215	32
230	225	225	220	33
235	230	230	225	34
240	235	235	230	35

- April 6, 2008 sees the introduction of a 10% band for company cars with CO<sub>2</sub> emissions of 120 g/km or less
- In a bid to encourage the uptake of company cars capable of running on E85 (high blends of biofuel) - so-called 'Flex-Fuel Vehicles' currently available from Ford and Saab - a 2% company car tax discount will be introduced from April 2008.
- Since April 2006, the waiver of the 3% supplement for diesel cars meeting Euro4 emission standards has been withdrawn for all cars registered from January 1, 2006.
- Discounts for alternatively-fuelled vehicles that have applied since April 2006 are:
  1. Cost of conversion disregarded for bi-fuel gas and petrol cars after type approval, no additional percentage discount.
  2. 2% discount for bi-fuel gas and petrol cars manufactured or converted before type approval
  3. 3% discount for hybrid electric and petrol cars
  4. 6% discount for electric-only cars.

## Company car fuel benefit

The fixed figure on which the company car fuel benefit charge paid by employees who drive company cars and receive 'free' fuel for private use is based will rise from £14,400 to £16,900 from April 6, 2008 in line with the change in the retail prices index since April 2003, as previously announced. However, in the Budget the Chancellor revealed that from April 6, 2009, the multiplier would increase at least in line with inflation. The move is designed to enhance the environmental incentives to drive fewer miles, according to the Government.

The Government revealed that there would be 'future changes to the existing van fuel benefit legislation so that it mirrors that for company cars'. The changes will centre on legislation being introduced in the 2008 Finance Bill to ensure that reimbursement of private fuel is not treated as earnings for tax purposes and that the same rules have effect for the provision of van fuel for private use as those that currently have effect for company car fuel



## Vehicle Excise Duty

Radical reform of Vehicle Excise Duty has been announced by the Chancellor with effect from April 1, 2009 (see table below).

Last year's Budget saw then Chancellor of the Exchequer Gordon Brown announce VED rates for 2007/8 as well as 2008/9 and 2009/10. However, now the Government has changed policies completely

As the table shows from today (March 13) VED rates for 2008/9 remain at the levels announced 12 months ago. Band A and B rates are frozen at current levels, Band C-F rates increase by £5 and Band G by £100.

From April 1, 2009, VED rates for cars registered on or after March 1, 2001, will be reformed to include six new bands - Bands A-M. As the table shows rates will vary from £0 (Band A) for cars with CO<sub>2</sub> emissions up to 100 g/km to £440 (Band M) for cars with CO<sub>2</sub> emissions over 255 g/km.

Then, from April 1, 2010, a new first year VED rate will be introduced. Low emission cars - up to 130 g/km will pay £0 - while the highest emission cars (over 255 g/km) will pay £950. The national media has dubbed the move a 'showroom tax'. The standard rate of VED in 2010/11 for cars already registered is also shown in the table.

VED Band	CO2 emissions g/km	2008-9 (1) standard rate	CO2 emissions g/km	2009-10 standard rate	2010-11	
					First year rate	Standard Rate (4)
A	Up to 100	0	Up to 100	0	0	0
B	101-120	35	101-110	20	0	20
C	121-150	120	111-120	30	0	35
D	151-165	145	121-130	90	0	95
E	166-185	170	131-140	110	115	115
F	Over 186 (2)	210	141-150	120	125	125
G	Over 226 (3)	400	151-160	150	155	155
H			161-170	175	250	180
I			171-180	205	300	210
J			181-200	260	425	270
K			201-225	300	550	310
L			226-255	415	750	430
M			Over 255	440	950	455

1. 2008/9 rates take effect from March 13, 2008

2. Cars registered before March 23, 2006

3. Cars registered on or after March 23, 2006

4. Alternative fuel car discount 2009-10 £20 bands A-I, £15 bands J-M 2010-11 £10 all cars.



The VED rate for light goods vehicles registered since March 2001 with effect from March 13, 2008 is £120 for Euro4-compliant vans registered between March 1, 2003 and December 31, 2006, with the standard rate being £180.

From January 1, 2009, a VED incentive to encourage the take-up of Euro5-emission diesel vans ahead of its mandatory introduction in 2011 will be introduced and will remain in place for the lifetime of the vehicle. The rate has not been announced.

VED bands and rates for private and light goods vehicles registered before March 1, 2001 (pre-graduated VED) are:

Engine size	2008/9*	2009/10
1549cc and below	£120	£120
Above 1549cc	£185	£200

\*Rates effective since March 22, 2007

With effect from April 1, 2010, the VED rate for cars and light goods vehicles registered before 2001 will be increased in line with the rate of inflation.

## Comment

At first glance the reform of VED bands looks hugely complicated. However, in reality the thresholds for each of the 13 bands from April 1, 2009 are unlikely to be sufficient to, on their own, radically change fleet buying decisions. What will be interesting, will be to see whether residual values are impacted by VED rates on higher emission vehicles. If secondhand values are hit then fleets are likely to drive their car choice lists towards lower emission vehicles.

## Fuel duty

The 2p a litre fuel duty increase that was due to be implemented on April 1, 2008 has been postponed until October 1, 2008.

However, the Chancellor repeated last year's announcement that duty would rise by 1.84p a litre on April 1, 2009 and that there would be a further 0.5p a litre fuel duty rise from April 1, 2010. The 2010 increase will be inflation-linked thus signalling the return of the fuel duty escalator.

From 2010-11, the biofuels duty differential will cease and the Renewable Transport Fuel Obligation (RTFO) will provide the total support for biofuels. The RTFO buy out price will be set at 30p per litre, providing a better incentive for biofuels, says the Government.



## Capital allowances

Without doubt the long-awaited changes in capital allowances is the most significant Budget decision.

The current capital allowance scheme for cars is to be scrapped in favour of an all-new system to be introduced from April 1, 2009.

Capital allowances are a system that allows companies to offset the cost of items used for their business against their tax bill. The changes will hit companies who buy vehicles outright and fleets that lease their company cars.

Currently, capital allowances on company cars work in two ways, with vehicles under £12,000 written down in a general pool, while vehicles of £12,000 and over are treated individually and their annual writing down allowance is capped at £3,000.

When cars costing over £12,000 are leased, a proportion of their rental is disallowed up to a maximum of 25%.

But with effect from April 1, 2009 for corporation tax purposes (April 6, 2009 for income tax) the capital allowance treatment of all cars will be reformed.

Expenditure on cars with CO<sub>2</sub> emissions above 160g/km will attract a 10% writing down allowance (WDA) and expenditure on cars with CO<sub>2</sub> emissions of 160g/km or below will attract a 20% WDA.

The rules affecting leased cars are being reformed in line with the new capital allowances rules. From April 1, 2009, leased cars emitting more than 160 g/km will have 15% of the relevant payments disallowed.

The Government is considering the option of applying the disallowance only to the final business user in a chain of leases.

In addition to this, the 100% first year allowance for the cleanest cars will be extended from March 31, 2008 to March 31, 2013 and the qualifying CO<sub>2</sub> emissions threshold will be reduced to 110 g/km from 120 g/km.

## Comment

Businesses have 12 months to prepare for the changes, but preparations should start now. As a supplier we will be feeding all the data into our computers to ascertain the impact of the changes on monthly rental rates on every single model. However, it is clear that rates for cars above 160 g/km will increase. Some commentators have predicted a major shift in company car choice lists to sub 160 g/km cars, while others believe it could herald the re-emergence of a drive towards cash for car schemes. What it does mean is that our consultancy approach to helping our customers operate the most tax-efficient vehicles from both a corporate and driver perspective comes into its own.

## AMAP rates

Tax-free mileage allowances (AMAPs) will remain unchanged. Speculation that they would be radically reformed to compensate drivers who use their own cars on business and claim they are out of pocket proved unfounded.

However, the Chancellor left the door open for changes in the 40p and 25p mile rates and 10,000 business mile threshold when he said: "The Government will take decisions on whether to align the tax/National Insurance contribution treatment of AMAPs in light of the outcome of the HM Revenue & Customs' consultation on collecting tax on benefits-in-kind and expense payments."



## VAT fuel scale charges

From May 1, 2008, the VAT fuel scale charges will be increased to reflect fuel price inflation. In addition, the table of emission bands will be amended to maintain alignment with those used for direct tax purposes. Businesses must use the new scale charges from the start of their next prescribed accounting period beginning on or after May 1, 2008.

## The King Review

There will be 'catastrophic economic and social consequences if we fail to act' to tackle climate change, Chancellor of the Exchequer Alistair Darling said in his Budget speech.

With transport accounting for almost a third of UK carbon emissions and Britain's 30 million cars, vans and lorries accounting for 22% of total carbon emissions, the Government published Professor Julia King's agenda for change.

Publication of her review - part one was published six months ago with October's Pre-Budget Report - looks at low carbon cars and the actions required to drive forward a low carbon economy.

She found that a typical car driver could reduce their vehicle carbon dioxide emissions by 25% by choosing the most efficient vehicle in their preferred class. Professor King also found that manufacturers needed to be encouraged to bring new technology to the market.

Specific actions recommended in the 'Review of Low Carbon Cars' include:

- The introduction of colour-coded car tax discs
- The strengthening of advertising regulation to provide clearer information on vehicles
- Redesigning and making compulsory the current new car fuel economy label
- Consideration as to whether dashboard technology can encourage smarter driving.

As a result of the report, the Chancellor has written to the European Commission calling for a tighter emissions target and the cap on emissions from cars to be reduced from 130 g/km of CO<sub>2</sub> to 100 g/km of CO<sub>2</sub> by 2020.

The Review made wide ranging recommendations in four key areas: reducing vehicle emissions, cleaner fuels, consumer behaviour and research and development.

Recommendations for the short and medium term are aimed at:

- Bringing existing low emission vehicle technologies from 'the shelf to the showroom' as quickly as possible
- Ensuring that consumer demand creates a market for low emission vehicles
- Moving the short-term focus of European policy back from biofuels to automotive technology
- Ensuring that further biofuel developments are truly sustainable, based on the growing understanding of their indirect effects; and
- Ensuring the automotive industry has the right requirements and signals to deliver step-change technologies in the medium term.

The 40 recommendations also include a call for all public bodies to match central Government by setting an ambition to reduce the average emissions of new vehicles bought for administration purposes to 130 g/km by 2010/11.

Professor King said: "My report today has a very positive message - that major reductions of CO<sub>2</sub> emissions from road transport in the years ahead are possible. But seizing these opportunities will require action from everyone, with Government playing a leading role. Government must coordinate efforts in an international context and provide the leadership to allocate responsibilities amongst vehicle manufacturers, fuel companies and consumers. My report sets out where the UK Government should take on a strong leadership role, both in driving European and international consensus and in national policy, where measures to incentivise smart consumer behaviour can be particularly effective."



## Road User Charging

A new fund to develop technology that could underpin national road pricing is to be established by the Government.

Chancellor of the Exchequer Alistair Darling announced that he would invite tenders to test technology with results expected next year.

In announcing the Government's intention to keep a national road pricing scheme on its agenda, the Chancellor said: "If we are to remain competitive over the next 20 to 30 years, we have to take more radical steps to reduce congestion on our roads.

"We need more capacity on our roads but we cannot build our way out of all the problems we face. Last week the Secretary of State for Transport announced further measures to ease congestion. In addition she has made available funding to develop local schemes to tackle congestion in the short-term.

"In the longer-term, road pricing could reduce congestion as well as helping to meet our wider environmental obligations."

